

Scrip Name	Offer Size
Ujjivan Small Finance Bank Ltd	Issue IPO : 750 crores

**Issue Highlights**

Issue Opens	Monday, 2 <sup>nd</sup> December 2019
Issue Closes	Wednesday, 4 <sup>th</sup> December 2019
Price Band	Rs.36-37
Bid Lot	400 equity shares and in multiples of 400 equity shares thereafter
Face Value	Rs. 10
BRLM	Kotak Mahindra Capital Company, IIFL Securities and JM Financial

**Offer Break-up**

Category	Allocation	Rs. In Crs.
QIB	75%	562.5
Non-Institutional	15%	112.5
Retail	10%	75
Total	100%	75

**Promoters of the Company**

Ujjivan Financial Services Limited (UFSL)
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**Company Overview**

Ujjivan Small Finance Bank was incorporated on July 4, 2016, however, they began their operations on February 1, 2017 when UFSL, the Promoter, transferred its business to the bank pursuant to the Business Transfer Agreement and it simultaneously commenced general banking activities pursuant to receipt of the license to operate as a small finance bank. As a result, its financial statements for Fiscal 2017 reflect only two months of operations from February 1, 2017 to March 31, 2017. Ujjivan Small Finance Bank is a mass market focused SFB in India, catering to unserved and underserved segments and committed to building financial inclusion in the country. The Promoter, UFSL commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the ‘economically active poor’ who were not adequately served by financial institutions. UFSL’s erstwhile business was primarily based on the joint liability group-lending model for providing collateral free, small ticket-size loans to economically active poor women. UFSL also offered individual loans to Micro and Small Enterprises (“MSEs”) and adopted an integrated approach to lending, which combined a customer touch point similar to microfinance, with the technology infrastructure and related back-end support functions similar to that of a retail bank. As of June 30, 2019, the bank served 4.72 million customers and operated from 474 Banking Outlets that included 120 Banking Outlets in Unbanked Rural Centres (“URCs”) (of which seven were business correspondent centres) and additionally operated 50 Asset Centres.

The portfolio of products and services includes various asset and liability products and services. Its asset products comprise: (i) loans to its micro banking customers that include group loans and individual loans, (ii) agriculture and allied loans, (iii) MSE loans, (iv) affordable housing loans, (v) financial institutions group loans, (vi) personal loans, and (vii) vehicle loans. On the liability side, the bank offers savings accounts, current accounts and a variety of deposit accounts.

Source – Company DRHP

### Company strengths

**Focus on reduction in cost of funds and increasing retail base:** USFB has strengthened its liability franchise with a focus on growing its retail deposit base to provide with a stable, low-cost source of funding. With the help of simple, flexible products, which are accessible through assisted and self-serviced channels, the bank can position themselves as a reliable alternative to informal players. As of June 30, 2019, its deposit base of Rs. 7956.7crores comprised 66.85% of their overall funding profile. Retail deposits formed 3.15% of total deposits as of March 31, 2017 and have grown to 37.07% of their total deposits as of March 31, 2019 and were 43.09% of its total deposits as of June 30, 2019. As a result, the Cost of Funds has been 9.01% and 8.33% in Fiscal 2018 and 2019, respectively, and was 8.66% in the three months ended June 30, 2019. They are focusing further to expand their retail deposit base through measured expansion of its Banking Outlets and offer digital savings and deposit products through internet and mobile banking to acquire new customers and also providing its existing customers with a convenient banking experience to meet the needs of their particular demographics. This shift will enable them to access diversified, short term, low cost funds. Since becoming a scheduled commercial bank in July 2017, USFB has also focused on increasing their institutional deposit base.

**GNPAs lowest among the small finance banks:** As of June 30, 2019, percentage of gross NPAs to gross advances was 0.84%, while the percentage of net NPAs to Net Advances was 0.26%. The Bank's portfolio at risk has been consistently improving and was Rs. 304.5 crores as of March 31, 2018 and reduced to Rs. 165.8 crores as of March 31, 2019 and was Rs. 205.6 crores as of June 30, 2019. Provision coverage ratio (including technical write-offs) was 81.87% and 71.90% in Fiscal 2018 and 2019, respectively and was 69.64% in the three months ended June 30, 2019.

### Concerns

**CASA Profile remains weak for Ujjivan:** As of June 30, 2019, the share of CASA to total deposits ratio was at 10.39%. This ratio is lower compared to its peers like Bandhan, AU SFB & Equitas whose ratios are 25%, 12% & 17% respectively. Access to stable and granular public deposits over the long run will bring down their cost of funds. However, SFBs are expected to face certain challenges in increasing CASA deposits in the initial few years after their transformation.

**MFI remains a significant portion of product mix:** Ujjivan Small Finance Bank's AUM stood at 12800 crore and has shown an impressive growth. The growth though, was driven by MFI. The share of the non-MFI book comprising MSE and housing now stands at 21% vs. 11% a year ago, while the share of MFI has fallen but still remains high at ~79% of loans, which has its own set of credit risk and cycles. The Bank is adding products like agriculture and allied loans, MSE loans, affordable housing loans, financial institutions group loans, personal loans, and vehicle loans to their portfolio to increase diversification.

### Valuations

**Post issue market capitalization of the company will be around Rs. 6390 crores. The company will be valued at 2.1x FY20 P/B.** This valuation does not leave much of headroom for upside. Also one has to be vary of the micro-finance cycle and risk associated in the business. One could subscribe for listing gains but otherwise the upside looks capped due to premium valuation.

# KEYNOTE

Profit & Loss account (INR Crores)			
Particulars	FY18	FY19	FY20e
Interest	1467.9	1831.6	2564.3
Other Income	111.5	205.9	308.9
<b>Total Income</b>	<b>1579.4</b>	<b>2037.6</b>	<b>2873.2</b>
Interest Expended	606.9	725.2	1015.3
Operating Expenses	652.9	1003.4	1274.3
Provisions and Contingencies	312.7	109.8	131.8
<b>Total Expense</b>	<b>1572.5</b>	<b>1838.4</b>	<b>2421.3</b>
PBT	6.9	199.2	451.9
Tax	0.0	0.0	113.0
<b>PAT</b>	<b>6.9</b>	<b>204.3</b>	<b>338.9</b>

Balance Sheet (INR Crores)			
Year ended March 31	FY18	FY19	FY20e
Share Capital	1640.0	1640.0	1728.2
Reserves & Surplus	6.9	179.6	1278.8
Deposits	3772.5	7379.4	11807.1
Borrowings	3852.8	4166.0	2707.9
Other Liabilities & Provisions	200.6	377.1	641.0
<b>Total Liabilities</b>	<b>9472.9</b>	<b>13742.2</b>	<b>18163.0</b>
Cash and Bank	494.8	1094.5	1149.2
Investments	1232.5	1526.6	2442.6
Advances	7336.2	10552.5	14245.8
Fixed Assets	198.3	284.5	284.5
Other Assets	211.0	284.3	41.0
<b>Total Assets</b>	<b>9472.9</b>	<b>13742.2</b>	<b>18163.0</b>

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